Weekly Economic Review

Higher earnings support housing affordability

Average Weekly Earnings

Earnings heat up

Average Weekly Earnings (AWE) in Alberta jumped to $1,147.14, up 1.8% compared with February, and an increase of 4.9% from March 2013. AWE in the goods-producing sector reached $1,628.62 in March, a 1.3% jump from February and an impressive 8.5% increase from March 2013. Average earnings in the service-producing sector were $988.13, a 1.6% jump from the previous month and a 2.7% increase year-over-year (y/y). On a year-to-date basis, earnings growth has been observed across most major industries (Chart 1).

Canada's AWE reached $932.69, a 3.1% y/y increase, which was the highest growth since September 2012. The earnings gap between Alberta and Canada widened to 23.0%.

Housing Affordability

Housing more affordable in Alberta

The RBC Housing Affordability Index, which estimates home ownership costs as a percentage of income, reveals that housing affordability in Alberta was unchanged in the first quarter of 2014. This was not true for all segments of the market. Condos became slightly less affordable, with cost-to-income increasing 0.4 percentage points to 20.2%. Detached bungalows became more affordable with cost-to-income falling slightly to 32.6%. The affordability of a two-storey house was unchanged at 34.4%.

Affordability in Canada declined marginally. Housing in Alberta is ranked as one of the most affordable in Canada across all market segments (Chart 2), thanks to higher average earnings in the province.

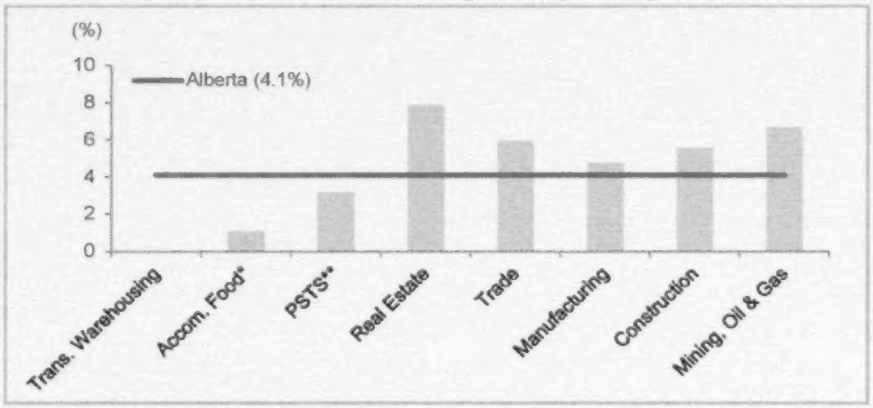
Rail Transport

Grain products move

Total rail carloadings in Western Canada rose 3.5% year-over-year to 156,000 cars in March. The growth in carloadings was largely due to strength in agricultural products, with wheat (+38.9% y/y) and canola (+33.1% y/y) both noting substantial gains. Shipments of crude products also contributed to the increase (+44.8%),

Chart 1: Goods industries lift earnings growth in the first quarter

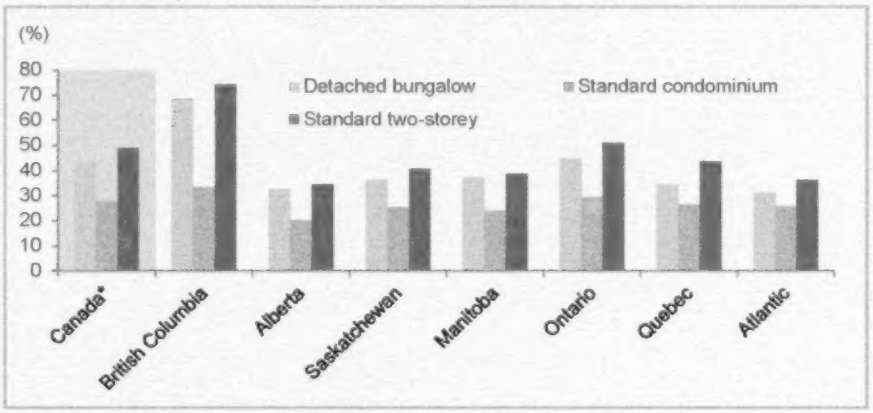
Year-to-date (YTD) Growth in Alberta Average Weekly Earnings (select industries)



Source: Statistics Canada. YTD growth is Jan-March 2014 over same time last year.
* Accommodation and Food Services
** Professional, Scientific and Technical Services

Chart 2: Housing affordability supported by healthy earnings growth

Home ownership costs as a percent of household income



Source: RBC, Housing Trends and Affordability, May 2014

though they represent a much smaller share of the total than agricultural products. A decline in cars loaded with potash and lumber weighed on overall carloadings.

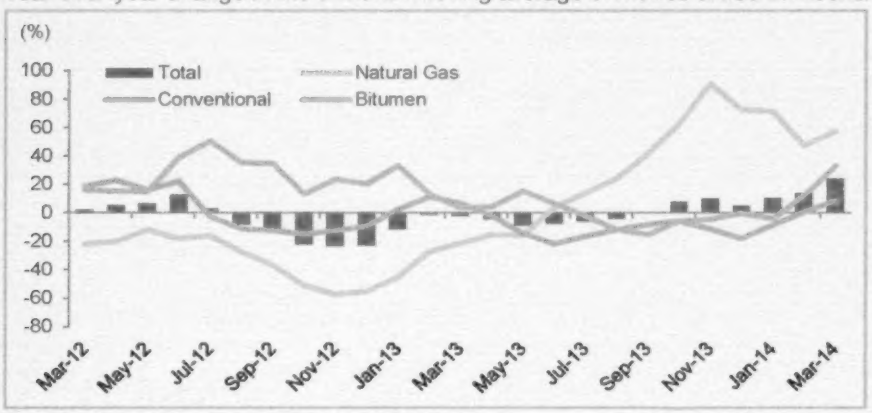
Drilling Activity

Rigs drill further

Total metres drilled in Alberta jumped 29.6% y/y in March lifted by solid growth from natural gas (69.5%) and bitumen (46.6%) wells (Chart 3). Natural gas suppliers were responding to a spike in prices following a draw-down of natural gas storage during an unusually cold winter. In March, the Alberta Reference Price, which reflects the price Alberta natural gas suppliers receive, was up 71.9% y/y. Drillers have responded by drilling not only more wells (61.1%), but also longer wells (metres per well rose 5.2%) to access stores of natural gas.

Chart 3: Metres drilled increases across oil and gas sector

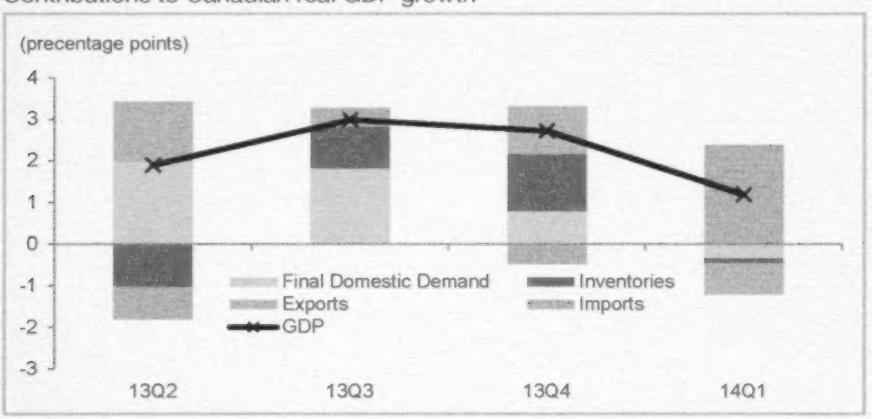
Year-over-year change in the 3-month moving average of metres drilled in Alberta



Source: Alberta Energy Regulator (AER ST-59)

Chart 4: Domestic demand in Canada has weakened

Contributions to Canadian real GDP growth



Source: Statistics Canada

More timely information on rigs drilling indicates that strong activity continued into the spring. In May, the average number of rigs drilling in Alberta was 115, 29.7% above the same month last year, and the highest May rig count since 2006. May typically represents a low in drilling activity. Drilling has expanded 2.8% year-to-date, with higher counts in April and May making up for a weak start to the year.

Canadian Real GDP

Weak demand slows growth

The Canadian economy grew at an annual rate of just 1.2% in the first quarter of 2014, the slowest rate of growth in over a year. Final domestic demand (final expenditures by domestic businesses, governments and households), which rarely contracts outside of a recession, declined at an annual rate of 0.3% (Chart 4). Much of what little GDP growth occurred, was due to a 7.2% decline in imports, which was partly brought about by a depreciation in the dollar, making imports more expensive for Canadians. Much of Canada also suffered from the severe winter weather that weighed on growth in the US.

US Real GDP

Chilly start to 2014

US real GDP fell at an annual rate of 1.0% in the first quarter. The contraction was the first in three years and was broad-based. Declines in inventories, exports and business fixed investment all dragged on growth. Cold winter weather in the US is partly responsible as it disrupted transportation networks, halted construction and kept consumers out of the stores. It also forced consumers to spend more on utilities, which supported 3.1% growth in household consumption.

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Please see the *Alberta Economy- Indicators at a Glance* for a snapshot of Alberta indicators.